



A Component Unit of the State of Utah

## **Annual Financial Report**

**For the Fiscal Year Ended June 30, 2007**

# **HIPUtah**

*Utah Comprehensive Health Insurance Pool*

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## **Table of Contents**

	<b>Page</b>
<b>Independent State Auditor's Report .....</b>	<b>2</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements:</b>	
Statement of Net Assets .....	8
Statement of Revenues, Expenses, and Changes in Net Assets.....	9
Statement of Cash Flows .....	10
Notes to the Financial Statements.....	11



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INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Directors, Audit Committee  
and  
Tomi Ossana, Executive Director  
Utah Comprehensive Health Insurance Pool

We have audited the accompanying basic financial statements of the Utah Comprehensive Health Insurance Pool (HIPUtah), as of and for the year ended June 30, 2007, as listed in the table of contents. HIPUtah is a component unit of the State of Utah. These financial statements are the responsibility of HIPUtah's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from HIPUtah's 2006 financial statements and, in our report dated October 27, 2006, we expressed an unqualified opinion on the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HIPUtah's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HIPUtah as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2007 on our consideration of HIPUtah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Auston G. Johnson, CPA  
Utah State Auditor  
November 16, 2007

# **HIPUtah**

## ***Utah Comprehensive Health Insurance Pool***

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### **Management's Discussion and Analysis**

For the Fiscal Year Ended June 30, 2007

#### **INTRODUCTION**

This section of the Utah Comprehensive Health Insurance Pool (HIPUtah) annual financial report presents management's discussion and analysis of HIPUtah's financial performance during the fiscal year ended June 30, 2007. It is intended to serve as an introduction to HIPUtah's basic financial statements.

#### **HIGHLIGHTS**

The net assets of HIPUtah increased from \$21.42 million at June 30, 2006, to \$27.84 million at June 30, 2007. This \$6.42 million or 29.97 percent increase in net assets from the prior fiscal year was primarily due to state appropriation funding exceeding operating losses. HIPUtah continues to have operating expenses greater than premium revenue; however, the operating loss of \$6.09 million in fiscal year 2007 was close to the prior year amount. This was because medical and drug claim increases were offset by premium increases. The increase in claim cost per enrollee was also less than market medical trends due to increased enrollment in the higher deductible plans. Average drug and medical claim costs per person per month during fiscal year 2007 decreased 3.67 percent from the prior year. Enrollment also only increased 3.40 percent in fiscal year 2007.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

HIPUtah's basic financial statements are comprised of two components: 1) the fund financial statements which consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows; and 2) the notes to the financial statements. HIPUtah is a special-purpose government engaged only in business-type activities, so only the fund financial statements are presented as the basic financial statements.

#### **FINANCIAL ANALYSIS**

The table on page 4 summarizes the changes in HIPUtah's financial statements between fiscal years 2006 and 2007. As shown on the table, the net assets of HIPUtah increased \$6.42 million or 29.97 percent from \$21.42 million at June 30, 2006, to \$27.84 million at June 30, 2007. This increase in net assets was primarily due to funding from state appropriations exceeding operating losses. The Utah Legislature appropriated \$11 million to HIPUtah for fiscal year 2007. This was done in order to keep HIPUtah financially sound and to continue the effort to maintain HIPUtah's net asset reserves at an adequate level.

HIPUtah continues to have operating expenses greater than premium revenue; however, the operating loss of \$6.09 million in fiscal year 2007 was close to the prior year amount. This was because medical and drug claim increases were offset by premium increases.

# HIPUtah

## Utah Comprehensive Health Insurance Pool

### Total Assets, Liabilities, Net Assets and Changes in Net Assets For the Fiscal Years Ended June 30, 2006 and 2007

(In Millions)	2006	2007	Change	Percent Change
<b>Total Assets</b>	\$ 24.76	\$ 30.93	\$ 6.17	24.92%
<b>Total Liabilities</b>	3.34	3.09	(0.25)	(7.49)%
<b>Total Net Assets</b>	21.42	27.84	6.42	29.97%
<b>Operating Revenues</b>				
Premiums	16.73	17.72	0.99	5.92%
Federal Grant for Low Income Premium Waiver Program	-	0.24	0.24	100.00%
<b>Total Operating Revenues</b>	16.73	17.96	1.23	7.35%
<b>Operating Expenses</b>				
Program Administrator Fees	1.41	1.51	0.10	7.09%
Medical and Drug Claims and Changes in Actuarial Estimates	21.22	22.38	1.16	5.47%
Other Professional and Technical Services	0.15	0.16	0.01	6.67%
<b>Total Operating Expenses</b>	22.78	24.05	1.27	5.58%
<b>Operating Loss</b>	(6.05)	(6.09)	(0.04)	0.66%
<b>Nonoperating Revenues and (Expenses)</b>				
Investment Income	0.85	1.53	0.68	80.00%
Federal Grant for Operating Losses	1.40	-	(1.40)	(100.00)%
Appropriations from the State of Utah	16.20	11.00	(5.20)	(32.10)%
Claims Settlement	-	(0.02)	(0.02)	100.00%
Donations and Other Revenue	0.25	-	(0.25)	(100.00)%
<b>Total Nonoperating Revenues and (Expenses)</b>	18.70	12.51	(6.19)	(33.10)%
<b>Increase (Decrease) in Net Assets</b>	\$ 12.65	\$ 6.42	\$ (6.23)	(49.25)%

# **HIPUtah**

## ***Utah Comprehensive Health Insurance Pool***

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### **Management's Discussion and Analysis**

For the Fiscal Year Ended June 30, 2007

The increase in claim cost per enrollee was less than market medical trends, due to increased enrollment in the higher deductible plans.

The operating losses for fiscal year 2006 and 2007 are both less than the operating loss in fiscal year 2005 due to the transition to SelectHealth as HIPUtah's Program Administrator. Effective July 1, 2005, SelectHealth began providing administrative services for HIPUtah. This change reduced the administrative fees and provided a better discount on the medical and drug provider network used by HIPUtah.

In June 2006, HIPUtah enrollment was 3,271. By June 2007, enrollment had increased to 3,377, a 3.40 percent increase from the prior year. Enrollment for fiscal year 2006 had increased 5.83 percent. During fiscal year 2007 there was an eligibility verification which contributed to slower enrollment growth. The most recent two years enrollment growth has been less than the expected long run average growth rate of 8 percent.

The average drug and medical claim costs per person per month during fiscal year 2007 decreased 3.7 percent from the prior year. However, large variations in average claim costs from year to year are not unusual for a small population such as the HIPUtah pool. This is because it is a high risk pool which covers the uninsurable of the State of Utah. Due to the nature of high risk pools costs may fluctuate widely from year to year.

An overall increase in premiums of approximately 9.00 percent was implemented on July 1, 2006. This was done to help cover increases in drug and medical costs. On July 1, 2006, HIPUtah introduced a \$5,000 qualified High Deductible Health Plan (HDHP) to help retain lower cost enrollees. At the end of fiscal year 2007, 726 out of 3,377 enrollees chose to move to the HDHP. Due to this movement after the premium increase, the average premium actually paid increased only 1.24 percent during fiscal year 2007. Member premiums covered 74.67 percent of claims and administrative costs for fiscal year 2007.

HIPUtah's investment earnings increased \$683 thousand or 80 percent during fiscal year 2007. This was mainly due to an improvement in interest rates and a 43.56 percent increase in the average daily balance invested by HIPUtah in the Utah Public Treasurer's Investment Fund (PTIF) from \$19.81 million in the prior year to \$28.44 million during fiscal year 2007. PTIF interest rates increased from an average of 4.17 percent in the prior fiscal year to an average of 5.21 percent for fiscal year 2007. The increase from the prior year in the average daily balance invested in the PTIF was mainly the result of increased appropriations from the State of Utah.

HIPUtah received in fiscal year 2007 a new \$2.41 million operational/bonus high risk pools federal grant from the Centers of Medicare and Medicaid Services (CMS) of the U.S. Department of Health and Human Services. Due to this grant, HIPUtah introduced a Low Income Premium Waiver program on January 1, 2007. In fiscal year 2007, \$242 thousand of this

# HIPUtah

## Utah Comprehensive Health Insurance Pool

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### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

grant was spent on the Low Income Premium Waiver program. The remainder of the grant must be expended by March 31, 2009.

#### FINANCIAL OUTLOOK FOR NEXT YEAR

HIPUtah's medical costs, drug costs and enrollment are expected to continue to increase during fiscal year 2008. Enrollment as of June 2007 was 3.40 percent higher than the enrollment as of June 2006, and the pool is expected to grow at an 8.00 percent rate during fiscal year 2008. Medical and drug costs are expected to continue to increase during fiscal year 2008 at about 8.50 percent. The expected increase is due to price and utilization increases together with normal medical inflation. Another cause of these rising costs is the increased use of costly technology, which provides more medical care for extremely ill patients prior to their recovery or death.

State appropriations together with member premiums during fiscal year 2007 covered incurred claims and were sufficient for HIPUtah's net assets to attain the recommended six month net asset reserve level to cover unpredictable claim cost fluctuations. The *Budgetary Procedures Act* was amended in 2004 to help provide guidelines in adopting a budget for HIPUtah each year (see *Utah Code* Section 63-38-2(14) and (16)). Now, according to statute, HIPUtah funding should be based on sound actuarial data and appropriate management of future risk.

The Utah Legislature has increased HIPUtah's funding in an effort to build up HIPUtah's net asset reserve level. HIPUtah ended fiscal year 2007 with \$27.84 million in net assets, which represents a 14.92 month reserve level. The total amount appropriated by the Utah Legislature for fiscal year 2008 was \$10.8 million which was a reduction of \$200 thousand from fiscal year 2007. This \$10.8 million appropriation consisted of an additional \$800 thousand to HIPUtah's existing \$10 million base budget. With this appropriation, HIPUtah is projected to have a 14.33 month reserve level at the end of fiscal year 2008.

Consistent with the three year projections by statute, the HIPUtah Board will request a three-year ongoing funding level amount to achieve a six-month reserve level by the end of fiscal year 2011 under a 0.800 percent per month enrollment increase scenario. If HIPUtah's base budget is maintained, it is expected to provide a projected 8.89 month reserve level of \$32.86 million by the end of fiscal year 2011.

In addition to the increase in state appropriations for HIPUtah, the Board has taken action to increase funding received through premiums and federal grants, in addition to decreasing administrative costs. Effective July 1, 2007, an overall premium increase of 5.00 percent was implemented along with some age-related adjustments. HIPUtah will continue to provide subsidies from federal grant funds for HIPUtah enrollees under the Low Income Premium Waiver program fiscal year 2008. HIPUtah will maintain its contract with SelectHealth which

# **HIPUtah**

*Utah Comprehensive Health Insurance Pool*

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## **Management's Discussion and Analysis**

For the Fiscal Year Ended June 30, 2007

has resulted in lower administrator fees on a per member per month basis and has provided a better discount on the medical and drug provider network used by HIPUtah.

### **CONTACTING HIPUTAH'S MANAGEMENT**

This financial report is designed to provide the citizens of Utah with a general overview of HIPUtah's finances and to demonstrate HIPUtah's financial accountability over its resources. If you have questions about this report or need additional information, contact Tomi Ossana, HIPUtah Executive Director, at 1464 East Emerson Avenue, Salt Lake City, Utah 84105, or by telephone at (801) 485-2830.



# HIPUtah

## Utah Comprehensive Health Insurance Pool

### Statement of Net Assets As of June 30, 2007

	<u>2007</u>	<u>Comparative Only 2006</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Notes 2, 3)	\$ 30,895,399	\$ 24,257,287
Accounts Receivable		
Premiums (Note 4)	33,144	153,986
Program Administrator Fees Reimbursement	-	181,220
Benefit Claims Reimbursements and Refunds	6,292	172,640
Total Accounts Receivable	39,436	507,846
Total Assets	<u>30,934,835</u>	<u>24,765,133</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable		
Program Administrator Fees	253,834	127,819
Due to Program Administrator for Medical Benefit Claims	77,518	159,231
Due to Program Administrator for Pharmacy Benefit Claims	398,409	479,090
Other Professional and Technical Services	9,499	12,297
Total Accounts Payable	739,260	778,437
Unearned Premiums and Other Unearned Revenue	206,399	207,521
Benefit Claims Liability (Notes 2, 5)	2,150,281	2,358,435
Total Liabilities	<u>3,095,940</u>	<u>3,344,393</u>
<b>NET ASSETS</b>		
Unrestricted	<u>\$ 27,838,895</u>	<u>\$ 21,420,740</u>

The accompanying notes are an integral part of the financial statements.

# HIPUtah

## Utah Comprehensive Health Insurance Pool

### Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Year Ended June 30, 2007

	2007	Comparative Only 2006
<b>OPERATING REVENUE</b>		
Charges for Premiums	\$ 17,716,726	\$ 16,734,281
Federal Grant for Low Income Premium Waiver Program	241,817	-
Total Operating Revenue	17,958,543	16,734,281
<b>OPERATING EXPENSES</b>		
Program Administrator Fees	1,510,676	1,411,474
Medical and Pharmacy Benefit Claims and Changes in Actuarial Estimates (Notes 2, 5)	22,383,186	21,222,002
Other Professional and Technical Services	157,062	149,583
Total Operating Expenses	24,050,924	22,783,059
Operating Loss	(6,092,381)	(6,048,778)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment Income (Notes 2, 3)	1,530,536	847,587
Federal Grant for Operating Losses	-	1,395,360
Appropriations from the State of Utah	11,000,000	16,203,900
Claims Settlement	(20,000)	-
Donations and Other Revenue	-	250,000
Total Nonoperating Revenues (Expenses)	12,510,536	18,696,847
Change in Net Assets	6,418,155	12,648,069
Total Net Assets - Beginning	21,420,740	8,772,671
Total Net Assets - Ending	\$ 27,838,895	\$ 21,420,740

The accompanying notes are an integral part of the financial statements.

# HIPUtah

## Utah Comprehensive Health Insurance Pool

### Statement of Cash Flows For the Fiscal Year Ended June 30, 2007

	2007	Comparative Only 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Premiums	\$ 17,834,763	\$ 16,796,832
Receipts from Low Income Premium Waiver Program Federal Grant	243,499	-
Payments for Medical and Pharmacy Benefit Claims	(22,587,386)	(22,712,701)
Payments for Program Administrator Fees	(1,203,442)	(1,861,421)
Payments for Other Professional and Technical Services	(159,858)	(142,926)
Net Cash Used by Operating Activities	<u>(5,872,424)</u>	<u>(7,920,216)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	11,000,000	16,203,900
Federal Grant for Operating Losses	-	1,395,360
Claims Settlement Payment	(20,000)	-
Donations and Other Revenue	-	250,000
Net Cash Provided by Noncapital Financing Activities	<u>10,980,000</u>	<u>17,849,260</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends from Investments	1,530,536	847,587
Net Cash Provided by Investing Activities	<u>1,530,536</u>	<u>847,587</u>
Net Increase in Cash and Cash Equivalents	6,638,112	10,776,631
Cash and Cash Equivalents - Beginning	24,257,287	13,480,656
Cash and Cash Equivalents - Ending	<u>\$ 30,895,399</u>	<u>\$ 24,257,287</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (6,092,381)	\$ (6,048,778)
Net Changes in Assets and Liabilities:		
Accounts Receivable	468,410	(472,477)
Prepaid Expense	-	8,175
Unearned Premiums and Other Unearned Revenue	(1,122)	183,868
Accounts Payable	(39,177)	(603,560)
Benefit Claim Liability	(208,154)	(987,444)
Net Cash Used by Operating Activities	<u>\$ (5,872,424)</u>	<u>\$ (7,920,216)</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Change in Fair Value of Investments	\$ 1,488	\$ (9,753)

The accompanying notes are an integral part of the financial statements.

# **HIPUtah**

## ***Utah Comprehensive Health Insurance Pool***

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### **Notes to the Financial Statements**

For the Fiscal Year Ended June 30, 2007

#### **1. ORGANIZATION AND NATURE OF BUSINESS**

The Utah Comprehensive Health Insurance Pool (HIPUtah) was created in 1990 by the Utah State Legislature (*Utah Code*, Section 31A-29-104) as a nonprofit quasi-governmental entity within the State of Utah Insurance Department. HIPUtah provides access to health insurance coverage for residents of the State of Utah who are considered uninsurable. HIPUtah assumes the risk for health claims made by these individuals. HIPUtah manages this risk by placing ceilings on enrollment when necessary, placing limitations on yearly and lifetime benefits, and through other various claim management methods. HIPUtah recovers its costs of providing services to the general public through premium charges and appropriations from the State of Utah.

HIPUtah is governed by a board that is appointed by the Governor with the advice and consent of the Utah State Senate. The Executive Director for HIPUtah has general oversight responsibilities. The HIPUtah Program Administrator is selected by the HIPUtah Board, in accordance with the Utah Procurement Code, and serves for a period of three years, with two one-year extension options. The Program Administrator may be removed for cause subject to the terms and conditions of the contract between the HIPUtah Board and the Program Administrator. Effective July 1, 2005, SelectHealth became the HIPUtah Program Administrator.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Accounting**

The accounting and reporting policies of HIPUtah conform with generally accepted accounting principles and use the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned, and expenses are recognized when incurred. All assets and liabilities associated with HIPUtah are included on the Statement of Net Assets. HIPUtah follows all Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. As allowed by GASB Statement No. 20, HIPUtah has elected to not apply FASB pronouncements issued after that date.

These financial statements are included in the State of Utah's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, as a component unit. The HIPUtah basic financial statements also include certain prior-year summarized comparative information, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such prior year information should be read in conjunction with HIPUtah's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

##### **Benefit Claims Liability**

The liability for benefit claims includes actuarial estimates of the ultimate cost of claims that have been reported but not settled and claims that have been incurred but not reported. Because actual

# **HIPUtah**

## ***Utah Comprehensive Health Insurance Pool***

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### **Notes to the Financial Statements**

For the Fiscal Year Ended June 30, 2007

claim costs depend on such complex factors as inflation and changes in insurance benefits, the process used in computing claim liabilities does not necessarily result in an exact amount. Because of this, the benefit claims liability is recomputed periodically by an actuary to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claims costs, because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to the benefit claims liability for changes in estimates is charged or credited to expense in the period in which it is made.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include the following:

- 1) Deposits in the State of Utah's general operating cash pool and the Utah Public Treasurer's Investment Fund (PTIF), an external investment pool.
- 2) Cash received for HIPUtah premiums by SelectHealth by June 30 but not yet deposited in HIPUtah's bank account.
- 3) The \$100,000 deposit in the bank account used by SelectHealth for HIPUtah claims disbursements plus any dividends earned on this account.

Excess funds not required for normal operations are deposited in the PTIF as required by state law.

#### **Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services in connection with HIPUtah's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **3. CASH AND INVESTMENTS**

HIPUtah follows the requirements of the State of Utah Money Management Act (*Utah Code*, Section 51-7) in handling its depository and investment transactions.

#### **Deposits**

##### ***Custodial Credit Risk***

Custodial Credit Risk is the risk that in the event of a bank failure, HIPUtah's deposits may not be recovered. HIPUtah's policy for managing its exposure to this risk is to comply with the Utah Money Management Act. This Act requires the deposit of HIPUtah funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the State of Utah Money Management Council. The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the Utah Money Management Act that relate to the deposit and

# **HIPUtah**

## ***Utah Comprehensive Health Insurance Pool***

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### **Notes to the Financial Statements**

For the Fiscal Year Ended June 30, 2007

investment of public funds. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized.

The operating cash deposit balance for HIPUtah was \$(73,474) at June 30, 2007. This was held and administered by the State Treasurer as part of the State of Utah's general operating cash pool.

The cash deposit balance for premiums received by SelectHealth as HIPUtah's Program Administrator but not yet deposited in HIPUtah's bank account was \$108,622 at June 30, 2007. This cash amount was in SelectHealth's bank account in their name.

#### **Investments**

The Utah Money Management Act defines the types of securities authorized as appropriate investments for HIPUtah and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize HIPUtah to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Utah Money Management Act. The Act established the State of Utah Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees – of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. As of June 30, 2007, HIPUtah had investments of \$30,733,531 (at fair value) in the PTIF maturing in less than one year.

The SelectHealth HIPUtah claims disbursement account HIPUtah deposit balance was \$126,720 at June 30, 2007. This was invested in a money market mutual fund which matured in less than one year.

# HIPUtah

## Utah Comprehensive Health Insurance Pool

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. HIPUtah's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Utah Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, fixed rate corporate obligations, variable rate negotiable deposits, and variable rate securities to 270 - 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

#### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. HIPUtah's policy for reducing its exposure to credit risk is to comply with the Utah Money Management Act as previously discussed. At June 30, 2007, HIPUtah's investments were in the PTIF and a money market mutual fund, which are unrated.

#### 4. ACCOUNTS RECEIVABLE - PREMIUMS

The clients of HIPUtah remit premium payments directly to SelectHealth, the HIPUtah Program Administrator. These premiums are transferred to HIPUtah at least every three days. The June 30, 2007, premiums accounts receivable amount includes premiums earned prior to July 1, but not received by SelectHealth until after June 30. There is no allowance for doubtful accounts.

#### 5. BENEFIT CLAIM LIABILITY

Changes in HIPUtah's benefit claims liability balances were as follows:

For the Fiscal Year Ended June 30	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2006	\$3,345,879	21,222,002	(22,209,446)	\$2,358,435
2007	\$2,358,435	22,383,186	(22,591,340)	\$2,150,281